

FDIC State Profile

Winter 2005

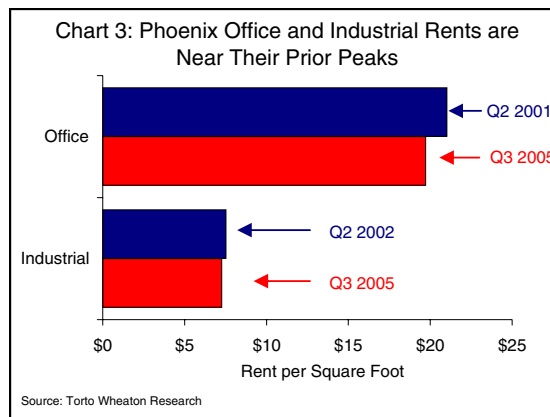
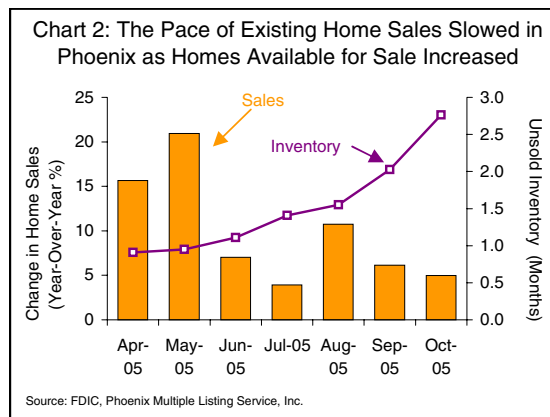
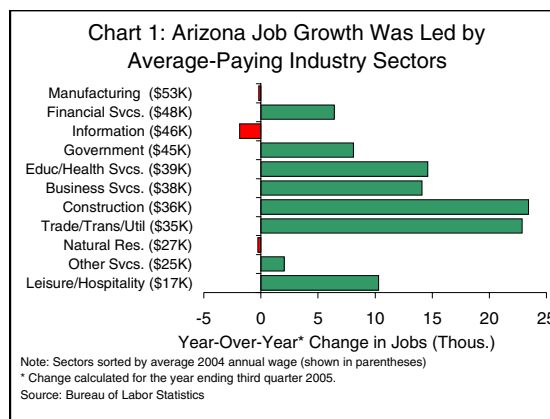
Arizona

Arizona job growth remained strong and wages increased modestly.

- Although Arizona job gains continued to accelerate in third quarter 2005 and ranked second nationwide, wage growth in the state was comparatively subdued. Recently released wage data for first quarter 2005 show that Arizona wages increased just 2.3 percent, only slightly above the national wage growth of 2.2 percent.
- Recent job growth was led by the construction and trade/transportation/utilities sectors, which reported annual wages near the state average of \$36,600 (see Chart 1).
- However, continued manufacturing and information job losses (two of the highest-paid sectors in Arizona in 2004) hampered the state's overall average wage growth.
- Forecasts indicate that Arizona will continue to rank among the states with the fastest job growth in 2006.¹

Arizona residential markets were still very robust.

- During third quarter 2005, year-over-year home price growth in Arizona reached 30 percent, the highest rate of appreciation in the nation.² Existing home sales, however, fell during October by 1.5 percent relative to the prior year and housing inventories expanded as a result of the declining sales activity.³
- The Phoenix area reported a 34 percent year-over-year appreciation rate during the third quarter, the highest in the nation and up slightly from the robust 32 percent reported the previous quarter. However, the pace of existing home sales in Phoenix slowed in September and October, while home listings increased (see Chart 2).⁴ Local realtors report that some investors are now trying to find renters but face competition because the number of rental homes in Phoenix has increased.⁵



¹Forecast data from Moody's Economy.com.

²Based on data from the Office of Federal Housing Enterprise Oversight.

³According to the Arizona Regional Multiple Listing Service, Inc.

⁴According to the Phoenix Association of Realtors.

⁵According to Realtor.com.

State Profile

Commercial real estate continued to rebound.⁶

- In Phoenix, industrial and office vacancy rates and rents improved through third quarter 2005 and rents are near their prior peaks (see Chart 3).
- Hotel occupancies in Phoenix, which reached 66 percent in third quarter 2005 (the highest level since 1998), spurred construction activity. Phoenix ranked sixth for planned hotel construction among 53 markets nationally.
- Third quarter 2005 apartment vacancies in Phoenix declined to 8.8 percent and rents edged up slightly due to constrained supply. This reflects, in part, developer preference for building condominium units instead of new apartments. However, supply may expand as permits and projected completions of apartments have increased.

Strong population growth propelled banking activity.

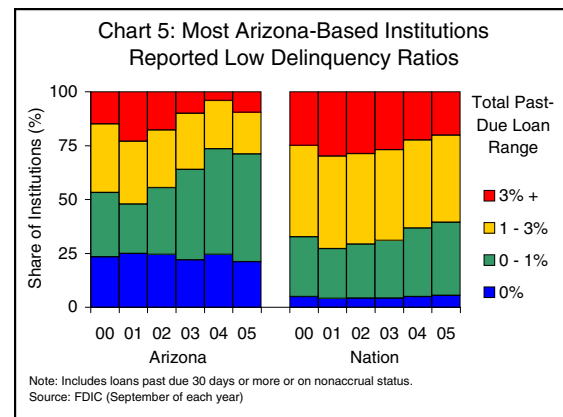
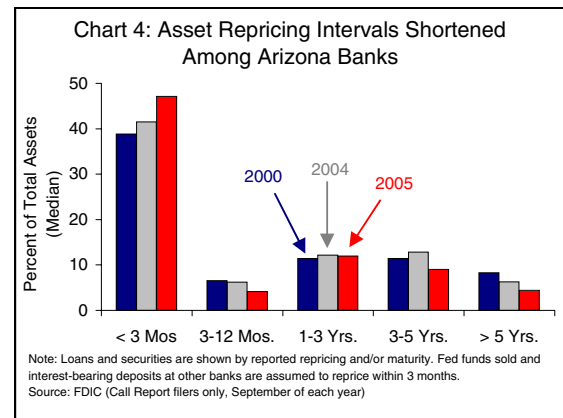
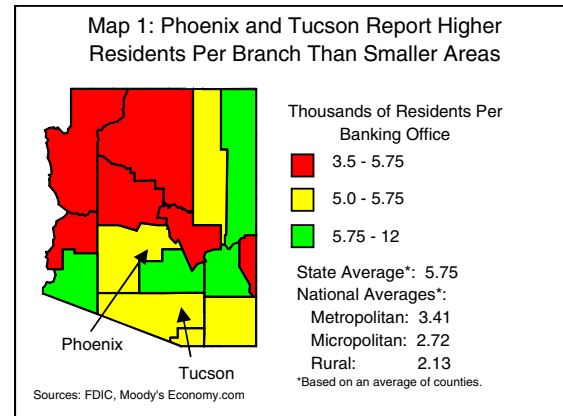
- Arizona, with the second fastest population growth in the nation for the 13th consecutive year, has been a magnet for banking activity. Arizona added 69 banking offices between June 2004 and June 2005 and ranked second nationally in office growth.
- Although most offices were opened in the Phoenix (51) and Tucson (13) markets, these metropolitan areas have significantly more people per banking office than metropolitan areas nationwide (see Map 1).
- As of June 2005, out-of-state institutions held 83 percent of deposits in Arizona branches, compared with only 31 percent five years ago. This is a reflection both of new entrants and industry consolidation.

Earnings performance strengthened.

- Third quarter 2005 earnings increased significantly year-over-year. Net interest margin and noninterest income improvements more than offset mild increases in overhead ratios.
- Rising short-term interest rates benefited Arizona-based banks. Nearly half of Arizona bank assets reprice quarterly (see Chart 4) compared to 25 percent among banks nationwide, facilitating margin expansion.
- Strong credit quality also influenced results. Roughly 27 percent of institutions reported no provision expense during third quarter 2005, up from 20 percent last year.

Statewide, past-due loans declined but exposure to higher-risk loans increased.

- Arizona ranked second lowest among the states for delinquent loans in third quarter 2005, in part because 21 percent of Arizona-based institutions had no past-due loans (see Chart 5).
- Strong economic conditions and robust loan growth helped keep delinquencies low. However, new construction lending pushed the concentration of construction loans to 193 percent of Tier 1 capital, the highest in the nation.



⁶Based on office and industrial data from Torto Wheaton Research and hotel and apartment data from Property & Portfolio Research.

Arizona at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	4.2%	3.9%	3.6%	3.4%	1.4%
Manufacturing (7%)	-0.1%	0.1%	0.9%	0.3%	-4.5%
Other (non-manufacturing) Goods-Producing (9%)	11.5%	11.3%	7.8%	7.7%	1.8%
Private Service-Producing (67%)	4.3%	3.8%	3.8%	3.6%	2.2%
Government (17%)	2.1%	2.3%	2.3%	1.8%	0.8%
Unemployment Rate (% of labor force)	4.8	4.7	4.9	5.0	5.7
Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	8.6%	8.5%	8.3%	5.3%
Single-Family Home Permits	-6.7%	5.7%	25.9%	20.9%	15.5%
Multifamily Building Permits	47.9%	5.6%	34.7%	8.7%	-8.4%
Existing Home Sales	7.7%	6.7%	10.5%	24.9%	16.7%
Home Price Index	30.3%	28.8%	15.6%	12.5%	5.8%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	7.45	6.68	5.50	5.48	6.84

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	52	51	49	49	50
Total Assets (in millions)	77,125	74,019	55,483	59,321	60,773
New Institutions (# < 3 years)	12	12	10	10	13
Subchapter S Institutions	7	7	6	7	6
Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.22	0.20	0.34	0.37	0.56
ALLL/Total Loans (median %)	1.14	1.12	1.07	1.06	1.17
ALLL/Noncurrent Loans (median multiple)	10.64	6.05	3.58	3.46	3.34
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.00	0.03
Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.70	9.54	10.12	10.27	9.90
Return on Assets (median %)	1.32	1.17	0.98	0.99	0.88
Pretax Return on Assets (median %)	1.79	1.54	1.35	1.13	1.16
Net Interest Margin (median %)	5.36	5.29	5.06	5.09	4.66
Yield on Earning Assets (median %)	7.12	6.97	6.27	6.26	5.98
Cost of Funding Earning Assets (median %)	2.09	1.82	1.28	1.28	1.30
Provisions to Avg. Assets (median %)	0.13	0.23	0.17	0.17	0.28
Noninterest Income to Avg. Assets (median %)	0.64	0.53	0.59	0.53	0.70
Overhead to Avg. Assets (median %)	3.69	3.81	3.49	3.68	3.74
Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	74.9	75.6	73.1	76.4	69.4
Noncore Funding to Assets (median %)	15.9	14.7	17.2	15.7	15.3
Long-term Assets to Assets (median %, call filers)	4.4	4.4	7.2	5.2	7.8
Brokered Deposits (number of institutions)	28	28	24	26	21
Brokered Deposits to Assets (median % for those above)	6.9	6.9	8.2	7.2	7.1
Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	80.4	112.2	107.8	114.0	110.9
Commercial Real Estate	511.2	486.8	441.0	462.3	385.9
Construction & Development	193.4	170.7	150.5	140.2	104.6
Multifamily Residential Real Estate	5.9	5.8	6.4	6.7	4.1
Nonresidential Real Estate	261.1	254.2	255.6	238.2	230.5
Residential Real Estate	78.4	80.4	95.1	89.1	76.4
Consumer	10.2	9.9	10.7	12.7	14.0
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Phoenix-Mesa-Scottsdale, AZ	65	52,219	< \$250 million	39 (75%)
Tucson, AZ	21	10,250	\$250 million to \$1 billion	7 (13.5%)
Prescott, AZ	12	2,857	\$1 billion to \$10 billion	5 (9.6%)
Yuma, AZ	9	1,223	> \$10 billion	1 (1.9%)
Flagstaff, AZ	8	882		